

BILL # SB 1366

TITLE: construction industry; municipal discriminatory tax

SPONSOR: Gorman

STATUS: As Introduced

PREPARED BY: Brian Cary

FISCAL ANALYSIS

Description

The bill would prohibit a municipality from having a construction transaction privilege tax (TPT) rate that is higher than its TPT rate for the majority of other business classifications unless the proceeds of the construction tax are used exclusively to provide public service infrastructure for new development.

Estimated Impact

The bill is not anticipated to have an impact on the state's General Fund as it does not affect the state's TPT collections. There may be some impact on the municipalities affected by the bill.

The Arizona Department of Revenue (DOR) did not provide an estimate of the bill's fiscal impact.

Analysis

According to data collected by DOR and the Arizona League of Cities and Towns, there are 24 municipalities in the state that have a higher tax rate on contracting than on most other TPT classifications. The contracting tax rates among these cities range from 2.45% to 5%, while their tax rates for retail businesses range from 1.75% to 3%.

Beginning January 1, 2008, the bill would require these cities either to reduce their contracting tax rates to those used for most other business classifications or to use the all of the proceeds from the contracting taxes to pay for new development infrastructure. These cities would have until December 31, 2008 to comply with this provision for higher contracting taxes in effect prior to January 1, 2008. Until a city complies, it would not be permitted to increase its contracting tax rate.

If a city's contracting tax rate were to be reduced, it is likely that contracting revenue also would decrease. It is possible that a lower tax rate on contracting could lead to an increased amount of construction activity due to the reduced cost of new development. If a city kept its contracting tax rate higher than its other TPT rates and was required to spend all contracting tax revenue on new infrastructure projects, it is possible that funds available for other purposes such as operations and maintenance would be reduced. An affected city may choose to seek additional revenue from other sources or reduce spending on items other than new development infrastructure.

The following table lists the municipalities that currently have construction contracting TPT rates that exceed the TPT rates for other business classifications:

(continued)

Municipal Tax Rates					
<u>Municipality</u>	<u>Retail TPT</u>	<u>Construction Contracting</u>	<u>Municipality</u>	<u>Retail TPT</u>	<u>Construction Contracting</u>
Benson	2.50%	4.00%	Kearny	2.50%	3.50%
Buckeye	2.00%	3.00%	Litchfield Park	2.00%	3.50%
Camp Verde	2.00%	3.00%	Marana	2.00%	4.00%
Carefree	3.00%	4.00%	Maricopa	2.00%	3.50%
Casa Grande	2.00%	4.00%	Oro Valley	2.00%	4.00%
Cave Creek	2.50%	5.00%	Quartzsite	2.50%	3.50%
Clarkdale	2.25%	3.25%	Queen Creek	2.00%	4.00%
Coolidge	3.00%	4.00%	Safford	2.50%	4.00%
Cottonwood	2.20%	3.20%	Sahuarita	2.00%	4.00%
Eloy	3.00%	4.50%	Sierra Vista	1.75%	2.45%
Florence	2.00%	4.00%	Surprise	2.20%	3.70%
Goodyear	2.00%	3.50%	Thatcher	2.00%	3.50%

Local Government Impact

As described above.

2/14/07